



# BOARD OF SUPERVISORS COUNTY OF LOS ANGELES

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**SHEILA KUEHL**  
SUPERVISOR, THIRD DISTRICT

12 May 2016

To: Members of the Audit Committee

From: Kieu-Anh King, Audit and Budget Deputy to Supervisor Sheila Kuehl  
Third District Appointee, Audit Committee

Re: Changes to 2016-17 Countywide Audit Plan

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At the May 2016 meeting of the County Audit Committee, the Auditor-Controller (A-C) will present, for our review, an initial draft of the Countywide Audit Plan for Fiscal Year (FY) 2016-17. The Audit Plan will reflect the staff time, monitoring capacity and resource allocation priorities of the Auditor-Controller, as informed by the A-C's assessment of audit / contract monitoring risk and Board of Supervisors (Board) policy priorities and direction. For the upcoming year, the Audit Division will release between 60 and 65 audit reports, which does not include the reports produced by the Countywide Contract Monitoring Division, whose annual plan we will review at a future Audit Committee meeting.

**Issue Statement #1.** As the Board seeks additional information about the efficiency and effectiveness of County programs and emerging issues, the Board mandates that the Auditor-Controller evaluate or audit these programs/issues. In certain circumstances, including most recently for Information Technology Security Audits, periodic reviews are a useful tool to monitor compliance with Board policies and expectations. In other cases, however, some such audits, primarily relating to internal controls and compliance, may not reflect the Board's current priorities. Audit staff time devoted to reviews of internal controls displaces time that could otherwise contribute toward programmatic audits and other higher-priority reviews.

- The Audit Committee should consider recommending that the Auditor-Controller revise the FY 2016-17 Audit Plan to shift resources from lower-priority periodic compliance reviews to higher-priority programmatic audits and Board-directed reviews of County operations and contracted services.

**Issue Statement #2.** To an extent, Audit Plan priorities are informed by the availability of budgetary resources. The County's FY 2016-17 Audit Division budget totals \$10.06 million:

Revenue / Subvention. \$7.5m (75.0%) is funded by departments with revenue and/or subvention (via Interfund Transfer/IFT), for related audits.

Net County Cost / NCC. \$1.5m (15.1%) is funded by NCC and supports audits of NCC-supported departments.

Provisional Financing Uses / PFU. \$1.0m (9.9%) is dedicated to Board-directed audits, funded by an allocation in PFU.

- The Audit Committee should consider developing the Audit Plan based on Board of Supervisors priorities, and then working to align the Audit Division budget with those priorities.

**Proposal.** I move that the Audit Committee take the following actions, related to the FY 2016-17 Los Angeles County Audit Plan:

**A. Reduce Resource Allocation for Lower-Priority Routine Audits.** For the June 2016 Audit Committee meeting:

1. Direct the Auditor-Controller to identify all routine audit reports required by regulation and/or prior Board of Supervisors direction and/or policy, including date of initial audit request, mandating agency and if applicable, audit frequency.
2. Direct the Auditor-Controller to submit a recommendation to conduct fewer routine compliance audit reports, beginning in the 2016-17 Audit Plan, and to instead propose a risk-based schedule to maintain some such audits, with the goal of conducting each audit for all high-risk County departments every five years. These continuing audits should be designed to assist departments in maintaining appropriate internal controls and compliance with County policies. The plan should outline the approximate percentage of audit staff time dedicated to the various types of reviews (i.e., programmatic, internal controls, regulatory mandate, etc.).

Routine audit reports to transition to a risk-based schedule may include:

- 2a. Cellular phones.
- 2b. Countywide foundation activities.
- 2c. Inventory and portable equipment.
- 2d. Payroll & personnel.
- 2e. Procurement.
- 2f. Proposition A avoidable cost analysis – \$1 million+ agreements.
- 2g. Sunset reviews.

Based on the final recommendation, the Auditor-Controller should submit an estimate of net staff resources decommitted – and newly available – as a result of these actions.

Related Item: Upon Audit Committee concurrence, the Third Supervisorial District will draft a motion to obtain Board of Supervisors approval to reduce the frequency of the selected audits and/or reports, and to shift to a risk-based audit frequency, as recommended by the Auditor-Controller and the Audit Committee.

3. Direct the Auditor-Controller to maintain the following priority and/or mandated reviews in the Audit Plan:

- 3a. Compliance with Board I.T. security policy, required annually by Board Policy.
- 3b. L.A. Care financial review, required annually by Welfare & Institutions Code.
- 3c. Recommendation status follow-ups, to be conducted as needed.

**B. Increase Resource Allocation for High-Priority Programmatic Audits and/or Board-directed Audits.** For the June or July 2016 Audit Committee meeting:

1. Direct the Auditor-Controller, in cooperation with the Chief Executive Officer, to draft a new Board of Supervisors policy to establish a goal to conduct a programmatic audit of each County department every five years.

The policy should allow for more or less frequent audits of entire departments, programs within departments or cross-departmental programs, as recommended by the Auditor-Controller or as directed by the Board or the Audit Committee. Large, complex and/or high-priority departments should be spaced throughout the five-year plan.

The audits initiated should take into consideration Board priorities and the availability of audit resources. Towards best facilitating the Board's objectives, the Auditor-Controller, upon discussion with the Audit Committee may substitute, postpone or cancel a scheduled or initiated audit due to timing, priority, resource availability or other considerations.

The programmatic and operational audits should be designed to identify key operational and service-delivery issues for departments and to assist them in designing and implementing system and service improvements. The audits should be similar in concept to the Probation Department audit requested via motion by Supervisor Ridley-Thomas on April 14, 2015, and may include reviews of:

- Budget, Fiscal, Contracting and Personnel functions.
- Compliance with industry best practices.
- Operations and Programs, relative to the entire department or for larger departments, select Core Functions and/or Business Lines.
- Outputs and Outcomes, as compared to industry standards or stated goals.
- Cost efficiency.

2. Direct the Auditor-Controller to submit a proposal for the Five-Year Countywide Programmatic Audit Plan, with Year 1 reflected in the FY 2016-17 Audit Plan.

**C. Enhance Reporting on Department-generated Audits and Contract Monitoring Reports.** For the June or July 2016 Audit Committee meeting:

Direct the Auditor-Controller, in cooperation with the Chief Executive Officer, the Executive Officer of the Board and County Counsel, to develop a Board of Supervisors policy that requires all departments to submit to the Audit Committee and the Board of Supervisors, once per fiscal year, a summary report of audits and contract monitoring reports conducted on the department or its operations by outside governmental agencies, hired consultants and/or internal staff.

The annual report should be brief and should include (a) a tally of the number of audits / contract monitoring reports completed, (b) the nature of the audits / contract monitoring reports and (c) a brief summary of material findings, questioned costs (including costs recovered or outstanding), deficiencies, concerns and recommendations. The Auditor-Controller should develop a standardized reporting template for departments, which may be based on the Community and Senior Services Department's well-formatted, easy to read Contract Monitoring Summary Report, at the Auditor-Controller's discretion.